Industrial Growth

Having looked into the industrial control regime and the performance of the industrial licensing system under different policy regimes and the trade liberalisation and industrialisation policy reforms of the 90s, let us now look at the industrial growth since Independence—the rate and pattern of growth and the structural changes.[1]

Phases of Industrial Growth

One can identify four distinct phases of industrial growth in India since the planning era. The first phase of rapid growth ends from 1956-1965. The second phase of slow growth or deceleration extends from 1965-66 to 1979-80. The third phase is a phase of recovery and revival of growth since 1980s and the fourth phase states the 1991 economic policy reform since 1991. Krishna has summarised the various

1. Kapila, Uma (2009). "Industrial Development and Policies since Independence", in *Indian Economy Since Independence*, ch.14. New Delhi: Academic Foundation.

explanatory hypotheses and has also reviewed the available empirical evidence bearing upon the alternative hypotheses.

During the period 1959-60 to 1965-66, value added in organised industry grew at the rate of 8.0 per cent per annum. The growth rate declined to 5.7 per cent in the period 1966-67 to 1989-90. The corresponding growth rates for the registered manufacturing were 7.6 and 5.5 per cent. In capital goods and basic goods, the decline was very pronounced from 15.4 to 6.6 and 11.0 to 5.0 per cent per annum, respectively. Consumer goods and its sub-category consumer non-durables experienced slight acceleration. In intermediate goods and consumer durables, there was mild deceleration. Thus, deceleration was largely confined to heavy industry which accounted for about 50 per cent of value added in industry in 1979-80.

Ahluwalia (1985) after empirically examining different hypotheses identified four factors:

(i) slowdown in public investment,

(ii) poor management of the infrastructure sector,

(iii) slow growth of agricultural incomes, and

(iv) restrictive industrial and trade policies.

However, Ahluwalia did not carry out any econometric exercise to establish her thesis. Rangarajan (1982), Lahiri *et al.*, (1984), Ray (1991) Mukhopadhyay (1992), Kavita Rao (1993) and Balakrishnan (1995) conducted econometric exercises to verify the various hypotheses. These exercises established that one or more of the following factors, public investment, agricultural performance, infrastructure, the policy of import substitution and domestic terms of trade turned out to be significant for the different industry groups. The overall inference from the various studies is that the demand constraints were more important than supply constraints.

In the 1980s, the industrial sector fared impressively in this decade, compared to the preceding 15-year period. The annual rates of growth for manufacturing, registered manufacturing and unregistered manufacturing were 7.0, 8.1 and 5.8, respectively.

In the first six years of the eighties, consumer durables recorded a growth rate of 14.2 per cent, while capital goods recorded a relatively modest growth of 7.8 per cent per annum.

Empirical evidence suggests that the explanations for the resurgence of growth in the 1980s are similar to those for the deceleration after the mid-sixties.

The manufacturing sector witnessed an upward trend in growth rates registering a growth rate of 8 to 9 per cent in the second half of 80s.

Industrial Growth in the 90s

Economic reforms of the 1990s had the dual objective of macroeconomic stabilisation and enhancing the growth potential of the economy. Policies to promote competition both within the economy and from imports were expected to contribute to cutting costs, improving quality and enhancing competitiveness of Indian industry. A proactive policy of attracting foreign investment was expected not only to ease the resource constraint for investment on account of the deteriorating fiscal situation but also to release critical supply constraints for industry, e.g., in the infrastructure sectors. If the growth of public investment was restrained or at times negative because of the compulsions of macroeconomic stabilisation, the expectation was that private investment could fill this void as it would respond to a much improved investment outlook in the economy. The private sector was given more room for greater participation in the process.

The 1990s have certainly been an eventful period for the industrial economy of India. Crisis, reform, adjustment, recovery, rapid growth and then a downward slide—this decade has seen it all. The collapse from a growth rate of 8.5 per cent in value added of manufacturing in the decade 1981-1991 to –2.3 per cent in 1991-92 was followed by a rapid and perhaps unprecedented recovery in such adjustment episodes. The three years from 1993-94 to 1995-96 saw an average growth of 13 per cent per annum (not reported in the table). Even though a major slowdown began in 1996-97, the average growth of value added in the period 1991-92 to 1997-98 was still as high as 9.1 per cent per annum, higher than the rapid growth of the early phase of Indian industrialisation in the first half of the 1960s. However, by 1999-2000, the average growth for the decade (not reported in the table) had declined to 8.0 per cent, based on the data for value added in manufacturing from National Accounts, which are available for more recent years.

Among the two-digit industry groups, the fastest growing industries for the period up to 1997-98 were basic metal industries, footwear, chemicals and chemical products, rubber products and transport equipment. Growth of value added in textiles at 7.2 per cent per annum in the 1990s was quite a bit higher than in the 1980s but the industry experienced more fluctuations in the 1990s compared to earlier years.

Table 15.1 presents the growth of value added for the use-based sectors. Capital goods emerges as the laggard sector. After its golden period in the first half of the 1960s, the capital goods sector in the Indian economy never really recovered from the setback. A long period of stagnation after the mid-60s was followed by only a modest improvement in the 1980s and some further increase in the growth rate in the 1990s. By contrast, the consumer non-durables sector was a slow growing sector pretty much till the end of the 1980s. The process of domestic deregulation of the 1980s provided a major stimulus to the growth of this sector. The recovery of this sector after 1991-92 was also robust as the sector recorded an average growth of 11 per cent.

TABLE – 15.1

Trends in Growth in Value Added Used-based Sectors

(Per cent per annum)

	Share in Value Added (1990-91)	*1960-61 to 1965-66*	*1965-66 to 1980-81*	*1980-81 to 1990-91*	*1991-92*	*1991-92 to 1997-98*
Manufacturing	100.0	8.5	4.3	7.8	-3.8	9.3
Capital goods	19.8	15.9	6.7	8.2	1.3	9.2
Intermediate goods	35.5	10.8	3.9	8.6	-4.3	11.4
Consumer durables	4.6	11.1	8.1	11.0	5.8	12.9
Consumer non-durables	40.1	5.1	4.0	10.7	3.9	11.0

Source: Annual Survey of Industries.

After a relatively modest performance during 1996-97 to 1998-99, the Indian industry experienced a turnaround. Several macroeconomic and business indicators were showing signs of a broad-based industrial recovery. The cumulative growth of industrial production, as measured by the Index of Industrial Production (IIP), was 6.2 per cent for April-December 1999, significantly higher than the 4.0 per cent of April-December 1998. The higher growth in the 1999-2000 has been largely contributed by the 7.0 per cent growth in manufacturing and the 7.7 per cent growth in electricity.

The Manufacturing Slowdown (1996-2002)

The loss of momentum in manufacturing growth, which occured in the latter part of 1996, has since continued during the second phase of the reform period. At the disaggregated two-digit level, the manufacturing sector witnessed substantial deceleration in 11 industry groups with a combined weight of 64 per cent in the manufacturing production. Six industry groups with a combined weight of 36 per cent withstood the slowdown and posted an accelerated growth during 1996-2002. However, in view of their relatively low weight, the manufacturing sector, as a whole, registered a slowdown.

Recovery in Industrial Growth since 2002-03

The industrial recovery in 2002-03 (5.7 per cent), which consolidated during 2003-04 (7.0 per cent), has gathered momentum since then reaching 8.4 per cent in 2004-05, 8.2 per cent in 2005-06 and 11 per cent in 2006-07.

With respect to use based classification of industries, the growth rate in the capital goods sector in April-November 2005-06 at 15.7 per cent indicated a substantial improvement over the growth of 13.8 per cent during the same period in 2004-05. It further improved to 16.2 per cent in 2005-06 and 16.1 per cent in 2006-07 (April-November). Consumer goods, both the durables and non-durables segments, also recorded improved performance with double-digit growth in the last two years. The turnaround in consumer durables since 2003-04 continued rising from 11.6 per cent in 2003-04 to 14.4 per cent in 2004-05 and 15.3 per cent in 2005-06.

The double-digit growth since 2003-04 in capital goods sector indicates the capital formation taking place in the industrial sector, which can help in strengthening the upswing. The ongoing growth process, which is investment-led and fairly evenly spread within manufacturing sector, reflects the medium and long-term optimism on the part of investors.

TABLE – 15.4

Growth Rates

	CAGR in Ninth Plan	*2002-03*	*2003-04*	*2004-05*	*2005-06 (QE)*	*2006-07 (RE)*	*CAGR in Tenth Plan*
GDP	5.5	3.8	8.5	7.5	9.0	9.4	7.6
Agriculture, forestry, and fishing	2.0	–7.2	10.0	0.0	6.0	2.7	2.1
Industry (manufacturing)	4.5 (3.8)	6.8 (6.8)	6.0 (6.6)	8.4 (8.7)	8.0 (9.1)	11.0 (12.3)	8.0 (8.7)
Services#	8.1	7.4	8.9	10.0	10.3	11.0	9.5

Note : # Construction is included in services;
QE = Quarterly Estimates. Figures in parentheses relate to manufacturing.
Source: Central Statistical Organisation.
Government of India (2008). *Eleventh Five Year Plan 2007-2012*, Planning Commission.

Measured by investment, the manufacturing sector's share in total fixed investment (gross fixed capital formation) has gone up from around 27 per cent in 1980s to about 40 per cent in the current decade. (Nagaraj 2011)[3]

The rising demand in both domestic and external markets was a major contributory factor but the impressive performance of manufacturing was due in no small measure to the cumulative effect of industrial and fiscal policy changes carried out since the economic reforms of 1991-92. The competitive environment created by the reduction of external barriers to trade finally started to bear fruit. Against a CAGR of 6.3 per cent in the Ninth Five Year Plan, exports of manufactures registered a CAGR of more than 19 per cent during the Tenth Five Year Plan.[4]

During the Tenth Five Year Plan, the sectoral share of industry in the GDP started rising after several years of decline. The share of manufacturing also maintained a rising trend after falling in the first year of the Tenth Plan (Table 15.5).[5]

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Industrial Growth since 2007-08

Though the growth of the industrial sector started to slowdown in the first half of 2007-08, the overall growth during the year remained as high as 8.5 per cent. The industrial sector witnessed a sharp slowdown during 2008-09 as a consequence of successive shocks, the most important being the knock-on effects of the global financial crisis. The pace of slowdown accelerated in the second half of 2008-09 with the sudden worsening of the international financial situation and the global economic outlook. The year 2008-09 thus closed with the industrial growth at only 2.4 per cent as per the Index of Industrial Production (IIP).[6]